

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

• * * * *

In the Matter of:

APPLICATION OF CUMBERLAND FALLS)
HIGHWAY WATER DISTRICT FOR (1) A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY TO CONSTRUCT EXTENSIONS AS)
DESCRIBED; (2) AUTHORITY TO BORROW)
APPROXIMATELY \$403,000 FROM FARMERS)
HOME ADMINISTRATION; (3) AUTHORITY TO)
REFUND EXISTING FMHA INDEBTEDNESS;)
(4) A RATE INCREASE EFFECTIVE)
NOVEMBER 20, 1985)

CASE NO. 9451

O R D E R

IT IS ORDERED that:

1. The Amended Staff Audit Report for Cumberland Falls Highway Water District ("Cumberland Falls") attached hereto as Appendix B shall be included as a part of the record in this proceeding.

2. Cumberland Falls shall have until the close of business April 11, 1986, to file written comments concerning the contents of Appendix A of the March 24, 1986, Order and the attached Appendix B.

Done at Frankfort, Kentucky, this 4th day of April, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Herman
Chairman

Paul H. Hines
Vice Chairman

Spencer N. Williams
Commissioner

ATTEST:

Secretary

APPENDIX B
Amendments to the Report on Limited Audit
of
Cumberland Falls Highway Water District

A hearing was held on March 27, 1986, at the Commission's offices in Frankfort, Kentucky, regarding Cumberland Falls Highway Water District ("Cumberland Falls"). During the proceeding some issues covered in the limited audit were examined and different accounting methods for these issues were deemed appropriate. Therefore, this amendment to the audit report reflects the changes deemed necessary.

FINDINGS

Outside Services-Engineering - 923

Vaughn and Melton Consulting Engineers prepared a preliminary engineering report for the proposed expansion project at a cost of \$2,500. Cumberland Falls expensed this amount in Account No. 923 - Outside Services-Engineering during the test year ended July 31, 1985. In the audit report, this expense was assumed to be associated with the preparation of the case before the Commission and, therefore, reclassified to Account No. 186 - Miscellaneous Deferred Debits and amortized over 3 years in Account No. 928 - Regulatory Commission Expense.

During the hearing, questions arose to this treatment. It was agreed upon at the hearing that a portion of this expense should be included in the cost of construction. It was determined that this expense should be divided in half and \$1,250 charged to the cost of construction to be capitalized to various accounts,

and \$1,250 charged to Account No. 186 - Miscellaneous Deferred Debits to be amortized over 3 years in Account No. 928 - Regulatory Commission Expense. Therefore, Account No. 186 - Miscellaneous Deferred Debits has been decreased by \$1,250 to \$5,370. Since this amount is to be amortized over 3 years, the revised Regulatory Commission Expense for the test year is \$1,790. The audit report showed the Regulatory Commission Expense for the test year to be \$2,207. Therefore, an adjustment has been made to decrease the Regulatory Commission Expense for the test year by \$417.

Transmission and Distribution Lines - 101-343

During the test year, Cumberland Falls capitalized the work order no. 84-73 from East Knox County Water District ("East Knox") into Account No. 101-343 - Transmission and Distribution Lines. This expense was incurred for the proposed extension project by having two employees solicit customers to sign up for service. At the hearing, this item was discussed. It has been determined that this expense should have been included in the construction costs and capitalized to the various plant accounts.

Depreciation Expense - 300

Since the test-year depreciation expense is an estimate and was not brought up-to-date for the financial statements in the application, and the two aforementioned capitalized items are now part of the new construction, which Cumberland Falls proposed a pro-forma depreciation expense adjustment for; the depreciation expense has not been changed from the audit report.

The aforementioned items charged to the new construction costs will be pro-rated to the various plant accounts based upon a weighted average of the direct extension costs per account.

SUMMARY

The following is a summary of these adjustments on Cumberland Falls' test-year operating statement including the adjustments from the audit report. The only expense per the operating statement included in the audit report that has been changed is Account No. 928 - Regulatory Commission Expense, which decreased from \$2,207 to \$1,790.

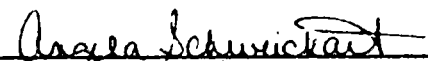
Acct. No.	Account Name	Test Year Reported	Staff Adjustments	Test Year Adjusted
<u>Revenues</u>				
461	Sales-Gen. Customers	\$182,459		\$182,459
464	Sales-Public Utilities	2,796		2,796
471	Misc. Serv. Revenues	4,252		4,252
474	Other Water Revenues	-0-	\$ 1,192	\$ 1,192
		<u>\$189,507</u>	<u>\$ 1,192</u>	<u>\$190,699</u>
<u>Operating Expenses</u>				
601-1	Purchased Water - Corbin	\$ 44,992	-0-	\$ 44,992
601-2	Purchased Water - Williamsburg	16,772	-0-	16,772
601-3	Purchased Water - W. Laurel	799	-0-	799
622	Power Purchased for Pumping	7,245	<1,597>	5,648
623	Pumping-Supplies & Expenses	34	-0-	34
625	Maintenance of Pumping Plant	599	-0-	599
632	Water Treatment & Expense	150	-0-	150
640	Trans. & Dist. Labor	25,277	270	25,547
641	Trans. & Dist. Sup. & Exp.	1,307	<307>	1,000
651	Maintenance of Mains	1,498	1,134	2,632
652	Maintenance of Services	1,429	<6>	1,423
653	Maintenance of Meters	6,470	<6,286>	184
654	Maintenance of Hydrants	166	-0-	166
656	Extraordinary Repairs & Maintenance	211	<211>	-0-
901	Meter Reading Labor	12,950	7	12,957
902	Acct. & Collecting Labor	22,310	1,956	24,266
903	Customer Accounts-Supplies & Expenses	3,868	-0-	3,868
904	Uncollectible Accounts	2,555	-0-	2,555
920	Administrative Services	1,619	<330>	1,289
921	Office Supplies & Expenses	640	1,597	2,237
923-1	Outside Serv.-Engineering	2,500	<2,500>	-0-
923-2	Outside Services-Legal	835	-0-	835
923-3	Outside Serv.-Accounting	3,865	-0-	3,865
924-1	Liability & Property Ins.	282	-0-	282
924-3	Insurance-Truck	989	-0-	989
924-4	Insurance-Fidelity Bonds	110	-0-	110
926	Employee Benefits	1,210	1,770	2,980
928	Regulatory Commission Exp.	218	1,572	1,790
930	Miscellaneous Gen. Expense	2,992	<1,360>	1,632
933	Transportation Expense	8,055	<505>	7,550
		<u>\$171,947</u>	<u>\$<4,796></u>	<u>\$167,151</u>
403	Depreciation Expense	\$ 19,407	\$1,053	\$ 20,460
408	Taxes Other Than Income	-0-	218	218

<u>Acct.</u> <u>No.</u>	<u>Account Name</u>	<u>Test Year</u> <u>Reported</u>	<u>Staff</u> <u>Adjustments</u>	<u>Test Year</u> <u>Adjusted</u>
<u>Other Income</u>				
419	Interest Income	\$ 3,145	\$ -0-	\$ 3,145
<u>Other Deductions</u>				
427	Interest on Long-Term Debt	\$ 13,917	\$ -0-	\$ 13,917
431	Interest Expense	<u>1,458</u>	<u>-0-</u>	<u>1,458</u>
NET INCOME (LOSS)		<u>\$ <14,077></u>	<u>\$4,717</u>	<u>\$ <9,360></u>

CONCLUSIONS AND RECOMMENDATIONS

The aforementioned items which were revised from the audit report by being capitalized and depreciated or amortized should be reclassified on Cumberland Falls' books.

Respectfully Submitted,


 Angela Schweickart
 Public Utilities Financial Analyst
 Senior
 PUBLIC SERVICE COMMISSION
 Division of Rates and Tariffs
 Revenue Requirements Section